

Joe Gqabi District Municipality

Audit Report

For the year ended 30 June 2013

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND COUNCIL ON JOE GQABI DISTRICT MUNICIPALITY
REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

Introduction

1. I have audited the consolidated and separate financial statements of the Joe Gqabi District Municipality set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2013, the consolidated and separate statement of financial performance, statement of changes in net assets, the statement of comparison of budget and actual and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practices (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2013 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Joe Gqabi District Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material losses

8. As disclosed in note 43 to the financial statements, material losses (36%) to the amount of R34,5 million were incurred as a result of water distribution losses.

Significant events

9. As disclosed in note 7 to the financial statements, unpaid grants to the amount of R49,6 million were impaired by R4,4 million due to payments not being honoured.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary information

11. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

15. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matters

16. Although no material findings concerning the usefulness and reliability of the performance information were raised in the annual performance report, I draw attention to the matters below.

Achievement of planned targets

17. Of the total number of 121 targets planned for the year, 44 were not achieved during the year under review. This represents 36% of total planned targets that were not achieved during the year under review.

This was mainly due to the fact that indicators and targets were not properly developed during the strategic planning process in that they were not aligned to available funding. This is due to a lack of monitoring over planned targets and being unable to implement effective corrective actions during the year.

Material adjustments to the annual performance report

18. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management.

Compliance with laws and regulations

19. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, are as follows:

Budgets

20. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Expenditure

21. Reasonable steps were not taken to prevent irregular and unauthorised expenditure as required by section 62(1)(d) of the MFMA.

Internal control

22. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

23. The oversight culminating in the in-depth scrutiny and comprehensive review of performance information was not adequate to ensure that the information was free from material misstatements. Although material misstatements were subsequently corrected, the fact that controls and procedures were not functioning consistently throughout the year indicates that the systems are unable to produce performance information free from material misstatements.
24. Policies and procedures have not been adequately implemented to ensure that unauthorised and irregular expenditure is prevented, which has resulted in non-compliance not being avoided. Action plans necessary to adequately address emerging risks associated with an ever-expanding municipality were not adequate to address these instances of non-compliance.

Financial and performance management

25. The development and amendment of standard operating procedures to accommodate non-routine transactions were not effective to ensure that material misstatements in the reporting of performance information were identified and corrected prior to submission for audit purposes. Subsequent material corrections were effected; however, the breakdown in controls indicates that the reporting of performance information is not yet sustainable.
26. Processes and procedures necessary for the prevention of irregular and unauthorised expenditure were not effective to ensure that non-compliance did not recur in the current year. The emerging risks associated with the irregular and unauthorised expenditure identified in the prior period were not adequately addressed and as such resulted in material non-compliance.

Governance

27. The risk assessment performed by management, as well as the assistance provided by internal audit, was not effective in evaluating the impact of potential emerging risks associated with non-compliance and reporting on performance information. This has resulted in material misstatements in the performance information not being detected as well as instances of irregular and unauthorised expenditure not being prevented, resulting in material non-compliance.

OTHER REPORTS

Investigations

28. Two in-house investigations were finalised at the time of writing this report, with one forensic and one criminal investigation still underway. These investigations all relate to the dishonest conduct of staff, with the forensic and criminal investigations specifically resulting of supply chain management irregularities.

Auditor - General

East London

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

